

Message Text

UNCLASSIFIED

PAGE 01 USBERL 00709 300758Z
ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 USIA-15 AID-05 EB-08 NSC-05
TRSE-00 SS-15 STR-07 OMB-01 CEA-01 CIAE-00
COME-00 FRB-01 INR-10 NSAE-00 XMB-04 OPIC-06
LAB-04 SIL-01 L-03 H-02 PA-02 /105 W
-----036299 301902Z /62

R 300700Z MAR 78
FM USMISSION USBERLIN
TO SECSTATE WASHDC 6513
INFO AMEMBASSY BONN

UNCLAS USBERLIN 0709

E O 11652: NA
TAGS: ECON GW WB
SUBJ: DIW ECONOMIC REVIEW PREDICTS MODEST GAIN IN 1978

SUMMARY: 1. GERMAN INSTITUTE FOR ECONOMIC RESEARCH (DIW) REPORT ON BERLIN ECONOMY RECORDS BERLIN GSP GAIN OF 1.3 PCT IN 1977, LOSS OF 12,000 JOBS WITH RELATIVELY GOOD PERFORMANCE IN EXPORT SECTOR HELPING COMPENSATE FOR WEAK FRG DEMAND. DIW PREDICTS 2.5 PCT GSP GAIN IN 1978, 3 PCT PRODUCTIVITY GAIN, BUT FURTHER POPULATION LOSS AND DISAPPEARANCE OF ADDITIONAL 6,000 JOBS IN CONSTRUCTION, RETAIL AND MANUFACTURING SECTORS. AUTHORS OF REPORT CONCEDED 1978 ESTIMATES BASED ON MORE OPTIMISTIC ASSUMPTIONS THAT CAN BE DERIVED FROM AVAILABLE DATA. SENAT OFFICIALS AGREE DIW GROWTH ESTIMATE ON OPTIMISTIC SIDE. END SUMMARY.

2. DIW FLAGS ONE PERCENT DECLINE IN 1977 BERLIN-FRG TURNOVER AS SIGNIFICANT FACTOR IN HOLDING GSP GROWTH TO 1.3 PCT IN SPITE OF UPWARD TREND IN EXPORT SECTOR. STRONGEST PERFORMANCES WERE TURNED IN BY BERLIN'S ELECTRICAL, PRECISION MACHINERY AND OPTICAL BRANCHES AS WELL AS SERVICE SECTOR RESPONDING TO RECORD 1977 TOURISM. BULK OF JOB LOSS WAS ATTRIBUTABLE TO DOWNWARD TREND IN CONSTRUCTION INDUSTRY AND RETAIL TRADE.(IN FIRST TWO MONTHS OF THIS YEAR, CONSTRUCTION UNEMPLOYMENT HAS REACHED 18.5 PCT COMPARED UNCLASSIFIED

UNCLASSIFIED

PAGE 02 USBERL 00709 300758Z

WITH GENERAL BERLIN 5.5 PCT UNEMPLOYMENT RATE AND FRG'S 5.4 PCT) RETAIL SECTOR ALSO TURNED IN DISAPPOINTING GROWTH OF 1.5 PERCENT IN 1977 COMPARED WITH FRG SECTORS 3 PCT GAIN. PROBLEMS HERE DUE TO CONTINUING POPULATION DECREASE AND INTERACTING GENERAL JOB LOSS IN CITY. ALTHOUGH POPULATION FELL LESS IN 1977 (24,000) THAN IN 1976 (34,000), AND 1975 (39,000), DIW PREDICTS DRAIN WILL RISE TO 29,000 IN 1978 WITH DEPRESSING EFFECT ON PRIVATE COMSUMPTION.

3. IN SPITE OF ANTICIPATED STAGNATION IN PRIVATE CONSUMPTION DIW SEES 5-6 PCT INCREASE IN BUSINESS LOANS IN 1978 STIMULATED BY TAX REDUCTIONS. DIW ESTIMATES ASSUME LOANS WILL NOT BE ENTIRELY DEVOTED TO RATIONALIZATION AND EQUIPMENT REPLACEMENT. ALSO CONTRIBUTING TO MILD UPWARD SWING PREDICTED FOR 1978 WILL BE RESUMPTION OF HIRING BY PUBLIC SECTOR, WHICH HAD HIRING BAN IN EFFECT MOST OF 1977. DIW COUNTS ON POPULATION LOSS TO ABSORB DISAPPEARANCE OF ADDITIONAL 6,000 JOBS (43,000 UNEMPLOYED) WITHOUT AFFECTING UNEMPLOYMENT RATE SIGNIFICANTLY. DESPITE POPULATION LOSS WEST BERLIN UNEMPLOYMENT RATE HAS FOR SOME MONTHS BEEN SLIGHTLY ABOVE FRG RATE.

4. AFTER TWO YEARS OF STABILITY IN NUMBER OF FOREIGNERS LEGALLY IN CITY, 1977 AGAIN SAW INCREASE, BRINGING TOTAL CLOSE TO 9.5 PERCENT OF BERLIN POPULATION. THIS PERCENTAGE IS EXPECTED TO RISE TO 9.7 PER CENT IN 1978.

5. DIW POLICY RECOMMENDATIONS STRESS INCREASED PUBLIC SPENDING AND HIRING IN 1978. DIW ALSO REPORTS IT HAS UNDERTAKEN ON BEHALF OF BERLIN SENATE A STUDY OF THE BERLIN PREFERENCES WITH VIEW OF DETERMINING TO WHAT EXTENT PREFERENCES HAVE BEEN ERODED BY DEVELOPMENT OF INVESTMENT INCENTIVE PROGRAMS IN FRG LAENDER.

6. COMMENT: PRIVATELY, AUTHORS OF KIW REPORT THAT THEIR GROWTH ESTIMATE IS BASED ON MOST OPTIMISTIC ASSUMPTIONS THAT CAN UNCLASSIFIED

UNCLASSIFIED

PAGE 03 USBERL 00709 300758Z

REASONABLY BE MADE FROM AVAILABLE DATA. THIS IS PARTICULARLY TRUE WITH RESPECT TO KIW'S ANTICIPATED 3 PER CENT FRG GNP GROWTH. REALIZATION OF 2.5 PER CENT BERLIN GROWTH BASED ON ASSUMPTION CONTINUED UPWARD TREND IN FRG DEMAND FOR PRODUCTS BERLIN INDUSTRY. AUTHORS NOTE INCREASED VALUATION OF GERMAN MARK IN FOREIGN EXCHANGE MARKETS HAS CAST BIG QUESTION MARK OVER FUTURE PERFORMANCE OF EXPORT INDUSTRY WHICH COULD IMPACT NEGATIVELY ON BERLIN CAPITAL GOODS PRODUCERS WHO ARE STATISTICALLY MORE IMPORTANT THAN IN FRG ECONOMY AS A WHOLE.

7. IN FACT BERLIN ECONOMY IN 6 OF 8 YEARS (EXCEPTIONS 74 AND 75) HAS TENDED TO LAG BEHIND FRG GROWTH RATES IN ORDER OF 1.5 - 3 PER CENT. DIW COUNTING ON SPECIAL FACTORS MENTIONED TO REVERSE TREND. IN CHOICE OF ADMITTEDLY OPTIMISTIC ASSUMPTIONS INSTITUTE HAS CLEARLY TAKEN ACCOUNT OF ROLE OF CONFIDENCE IN INVESTMENT DECISIONS AND DANGER OF PESSIMISTIC SELF-FULFILLING PROPHECIES OFFICE OF SENATOR OF ECONOMY TELLS US THEY TOO MUST ADMIT PREDICTIONS ARE ON ROSY SIDE. THEY CONSIDER SITUATION IN CONSTRUCTION INDUSTRY WORSE THAN OUTLINED BY DIW. GEORGE

UNCLASSIFIED

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: RESEARCH, ECONOMIC REPORTS
Control Number: n/a
Copy: SINGLE
Draft Date: 30 mar 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 jan 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978USBERL00709
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780138-0844
Format: TEL
From: USBERLIN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t1978036/aaaaaent.tel
Line Count: 113
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: a5e3a1c5-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 29 mar 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3304846
Secure: OPEN
Status: NATIVE
Subject: DIW ECONOMIC REVIEW PREDICTS MODEST GAIN IN 1978 SUMMARY: 1. GERMAN INSTITUTE FOR ECONOMIC RESEARCH (DIW) REPORT ON BERLIN ECONOMY RECORDS BERLIN GS P GAIN OF 1.3 P
TAGS: ECON, GE, WB
To: STATE
Type: TE
vdkgvkey: odbc://SAS/SAS.dbo.SAS_Docs/a5e3a1c5-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014